

February 3, 2003



Financial Management

Financial Reporting of Deferred
Maintenance Information on Army
Weapons Systems for FY 2002
(D-2003-054)

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Article I, Section 9

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Acronyms

AMCOM	Aviation and Missile Command
FASAB	Financial Accounting Standards Advisory Board
FORSCOM	Army Forces Command
TACOM	Tank-automotive and Armaments Command
SFFAS	Statement of Federal Financial Accounting Standards



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-4704


February 3, 2003

MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Report on the Financial Reporting of Deferred Maintenance Information on
Army Weapons Systems for FY 2002 (Report No. D-2003-054)

We are providing this report for your information and use. The audit was performed in support of the Chief Financial Officers Act of 1990 (Public Law 101-576), as amended by the Government Management Reform Act of 1994 (Public Law 103-356), and the Federal Financial Management Improvement Act of 1996 (Public Law 104-208). We considered management comments on a draft of this report when preparing the final report. The Department of the Army comments conformed to the requirements of DoD Directive 7650.3; therefore additional comments are not required.

We appreciate the courtesies extended to the staff. Questions should be directed to Mr. James L. Kornides at (614) 751-1400 ex 211 or Mr. Stuart D. Dunnett at (614) 751-1400 ex 214. See Appendix B for the report distribution. The team members are listed inside the back cover.


David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General of the Department of Defense

Report No. D-2003-054

(Project No. D2001FJ-0156.002)

February 3, 2003

Financial Reporting of Deferred Maintenance Information on Army Weapons Systems for FY 2002

Executive Summary

Who Should Read This Report and Why? DoD personnel responsible for compiling and reporting deferred maintenance information and users of deferred maintenance information should read this report about Army compliance with deferred maintenance reporting requirements.

Background. The Federal Accounting Standards Advisory Board requires Federal entities to provide supplemental information on deferred maintenance as part of the entities' financial statements. The Federal Accounting Standards Advisory Board defines deferred maintenance as maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed to a future period. The Army did not issue financial statements for the Army general fund in FY 2001, but issued statements in FY 2002.

We primarily focused on the records used to compile deferred organic (in-house) maintenance and did not include a review of possible deferred maintenance at contractor facilities.

Results. During 2002, the Army did not consistently and accurately compile information on deferred maintenance on its weapons systems. Army budget reports projected that unfunded deferred maintenance on its weapons systems would grow from \$311.8 million in FY 2001 to \$463.1 million in FY 2002. However, the budget reports could not be reconciled to information from condition assessments of Army weapons systems. Condition assessments for combat vehicles and Blackhawk helicopters indicated that the Army budget reports understated deferred depot-level maintenance by \$247.5 million for combat vehicles and \$118.8 million for Blackhawk helicopters. Additionally, the budget reports did not include at least \$234.5 million in deferred field-level maintenance on combat vehicles. The Army budget reports also did not report on \$105.9 million of unexecutable deferred maintenance on Patriot missiles. Unless the Army develops better procedures to compile deferred maintenance information, the Army was not be able to provide a reliable estimate of deferred maintenance on its weapons systems as required in supplementary information to the FY 2002 Army General Fund Financial Statements.

Management Comments. The Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller) concurred with the finding and recommendations; therefore, no additional comments are required. See the Finding section of the report for a discussion of management comments and the Management Comments section of the report for the complete text of the comments.

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Background

This audit was performed in support of the Chief Financial Officers Act of 1990 (Public Law 101-576), as amended by the Government Management Reform Act of 1994 (Public Law 103-356), and the Federal Financial Management Improvement Act of 1996 (Public Law 104-208). This report is the second in a series resulting from our audit of the financial reporting of deferred maintenance on weapons systems. The first report discussed Air Force reporting. This report discusses Army efforts to compile and report deferred maintenance information.

The Financial Accounting Standards Advisory Board (FASAB) defines generally accepted accounting principles for the Federal Government. FASAB defines maintenance as the act of keeping fixed assets in acceptable condition. This includes all activities needed to preserve the asset so that it continues to provide acceptable services and achieves expected life. However, maintenance excludes activities aimed at expanding the capacity of the asset or otherwise upgrading it to serve needs different from, or significantly greater than, those originally intended.

Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," June 1996, as amended by Statement of Federal Financial Accounting Standards No. 14, "Amendments to Deferred Maintenance Reporting," April 1999, defines deferred maintenance as maintenance that was not performed when it should have been or was scheduled to be and which, therefore, is put off or delayed to a future period.

In June 1996, FASAB required entities to disclose deferred maintenance in the financial statements. Deferred maintenance was required to be shown as a line item on the Statement of Net Cost with a footnote reference in lieu of a dollar amount. FASB concluded that deferred maintenance did not meet the definition of a liability because it could not be sufficiently measured. In April 1999, FASAB changed the requirements for financial statement reporting of deferred maintenance from a footnote disclosure to the Required Supplemental Information section. This was done to allow management maximum flexibility in reporting on deferred maintenance.

FASAB standards observe that maintenance is often underfunded and the consequences of underfunding maintenance are often not immediately reported. The consequences include increased safety hazards, higher costs in the future, and inefficient operations. Therefore, reporting deferred maintenance estimates in the financial statements is intended to provide reliable information on the condition of weapons systems. It also shows managers and Congress the cost of correcting weapons systems deficiencies.

Army maintenance is accomplished at two different activity levels, depot-level maintenance activities and field-level maintenance activities. Depot-level maintenance includes major repair, overhaul or complete rebuilding of weapons systems, end items, parts, assemblies, and subassemblies; manufacture of parts; technical assistance; and testing. Field-level maintenance includes maintenance activities at organizational levels below the depot-level.

The Army is required to report on unfunded maintenance for its weapons systems in Op-30 budget reports. These reports are also used to compile deferred maintenance amounts that are reported in required supplementary information to the Army general fund financial statements. For FY 2001, the Army reported \$311.8 million of unfunded maintenance on its weapons systems in Op-30 budget reports, but the Army did not issue financial statements with deferred maintenance information due to the loss of documentation in the terrorist attack on the Pentagon.

Objectives

The overall objective was to determine whether DoD consistently and accurately compiled deferred maintenance information on weapons systems for financial reporting purposes. This report focuses on the accuracy of Army deferred maintenance information. We also assessed compliance with applicable laws and regulations. See Appendix A for a discussion of scope and methodology.

Compilation of Army Deferred Maintenance Information

During 2002, the Army did not consistently and accurately compile information on deferred maintenance on its weapons systems. Army budget reports projected that unfunded deferred maintenance on its weapons systems would grow from \$311.8 million in FY 2001 to \$463.1 million in FY 2002. However, the budget reports could not be reconciled to information from condition assessments of Army weapons systems. Condition assessments for combat vehicles and Blackhawk helicopters indicated that the Army budget reports understated deferred depot-level maintenance by \$247.5 million for combat vehicles and \$118.8 million for Blackhawk helicopters. Additionally, the budget reports did not include at least \$234.5 million in deferred field-level maintenance on combat vehicles. The Army budget reports also did not report on \$105.9 million of unexecutable deferred maintenance on Patriot missiles. These conditions occurred because the Army did not adapt its reporting process to comply with DoD financial accounting and reporting policies for deferred maintenance. Unless the Army develops better procedures to compile deferred maintenance information, the Army will not be able to provide a reliable estimate of deferred maintenance on its weapons systems as required in supplementary information to the Army General Fund Financial Statements.

Accounting and Reporting Guidance

Reporting Deferred Maintenance. Statement of Federal Financial Accounting Standards No. 6, "Accounting for Property, Plant, and Equipment," as amended April 1999, defines two acceptable methods of measuring deferred maintenance: the condition survey method and the life-cycle costing method. Condition assessment surveys are periodic inspections to determine the current condition of assets and estimates of the cost to correct deficiencies. The life-cycle costing method considers operating, maintenance, and other costs in addition to the acquisition cost of the assets.

DoD Financial Management Regulation volume 4, "Accounting Policy and Procedures," chapter 6, "Property Plant and Equipment," August 2000, implements Federal Financial Accounting Standards and allows the Military Departments to account for deferred maintenance on its weapons systems using cost assessment surveys based on the condition of reportable assets, life cycle forecasts of cumulative deferred maintenance, or other methods so long as the accounting method is adequately described in the financial statements.

DoD Financial Management Regulation volume 6B, "Form and Content of the DoD Audited Financial Statements," November 2001, requires DoD Components to report material amounts of deferred maintenance on weapons systems property,

plant, and equipment in accordance with Statement of Federal Financial Accounting Standards (SFFAS) No. 6, "Accounting for Property, Plant, and Equipment" and the Statement of Recommended Accounting Standards No. 14, "Amendments to Deferred Maintenance Reporting," April 1999.

Chapter 12 of volume 6B requires the Military Departments to compile deferred maintenance information on weapons systems using the same methodology employed in budget exhibits on unfunded depot-level maintenance (Op-30 Reports). The Regulation also requires the Military Departments to report material amounts of deferred field-level maintenance. Additionally, the Regulation requires the Military Departments to include a narrative statement that discloses and describes the method used to determine the estimated amounts of deferred maintenance and information on asset condition.

Budget Formulation. DoD Financial Management Regulation volume 2A, "Budget Formulation and Presentation," June 2000, provides general guidance on the formulation and submission of the budget requests to the Office of the Secretary of Defense for the fall budget review and the presentation and justification of the budget requests to the Congress. The Future Years Defense Program is the program and financial plan for the Department of Defense as approved by the Secretary of Defense. The program arrays cost data and force structure over a 6-year period portraying these data by major force program for DoD internal review for both the Program Review and Budget Estimates Submission. The data are also provided to the Congress in conjunction with the President's Budget. The regulation also requires the Military Departments to prepare Op-30 reports on depot maintenance requirements. It allows the Military Departments to provide additional exhibits to supplement required reports. The purpose of the back-up exhibits is to describe the programs and justify the estimates. The Military Departments are instructed to seek changes to the regulation if the data collection systems or management systems used by the Military Departments provide for cost accounts, program units, or workload indicators different from those specified in the regulation.

Reporting of Army Deferred Maintenance

The Army needs to adapt its reporting process to implement DoD accounting and reporting policies regarding deferred maintenance on weapons systems. Specifically, for FY 2002, Army Op-30 budget reports projected that unfunded maintenance on its weapons systems will be about \$463.1 million. However, the budget reports could not be reconciled to information from condition assessments of Army weapons systems and does not include at least \$234.5 million in deferred field-level maintenance. The Army also did not compile information on the amount of unexecutable deferred maintenance scheduled to be completed in future years.

Unfunded Deferred Maintenance

Each year, Army managers complete cost assessments of depot-level maintenance requirements for Army weapons systems and related support equipment. The cost assessments are based on condition assessments and scheduled recapitalization of Army weapons systems. The cost assessments project depot-level workload over the 6-year future years defense program based on equipment that qualifies or is projected to qualify for depot-level maintenance in future years.

The Army compiles information from those cost assessments to complete Op-30 budget reports. The information is then used to estimate the amount of unfunded depot-level maintenance on its weapons systems for the budget year and the two preceding years. For FY 2002, the Army Op-30 reports projected that unfunded depot-level maintenance on its weapons systems would grow from \$311.8 million to \$463.1 million (see Table 1 below).

**Table 1. Funding of Army Depot-Level Maintenance
(FYs 2000-2002)**

<u>Fiscal Year</u>	<u>Unfunded Millions</u>	<u>Funded</u>	<u>Percentage Unfunded</u>
2000	\$223.6	\$ 857.5	20.7
2001	311.8	908.8	25.5
2002	463.1	1,064.7	30.3

As illustrated in Table 2, Army broke out the \$463 million in unfunded depot-level maintenance requirements by weapons systems in the FY 2002 Army Op-30 report.

**Table 2. Categories of Weapons Systems reported in the
Army Op-30 Report**

<u>Category</u>	<u>Unfunded Millions</u>	<u>Funded</u>	<u>Percentage Unfunded</u>
Combat Vehicles	\$ 93.9	\$ 215.5	30.4
Aircraft	180.2	175.7	50.7
Missiles	30.9	235.8	11.6
Ordinance	4.9	20.2	19.5
Other	153.2	417.5	26.8
Total	\$463.1	\$1064.7	30.3

The FY 2002 amounts from the Op-30 reports could not be reconciled to information from condition assessments of combat vehicles or Blackhawk helicopters. This occurred because the Army did not include all requirements from the condition assessments in the Op-30 reports. It only included the amount the Army believed it could fund and execute given its existing depot capacity, rather than actual requirements.

Combat Vehicles. Army Regulation 750-2, "Army Materiel Maintenance Wholesale Operations," October 27, 1989, requires the Tank-automotive and Armaments Command (TACOM) to perform condition assessments of combat vehicles reaching prescribed mileage intervals. Information from Army condition assessments indicates that amounts reported on Op-30 reports as unfunded depot-level maintenance are significantly understated for combat vehicles.

As of March 2002, the TACOM Combat Vehicle Evaluation Program reported that it had a backlog of 1,393 combat vehicles that require depot overhaul with an estimated overhaul cost of \$418.2 million. The backlog occurred from FY 1994 through FY 2002 because the Army did not adequately fund depot maintenance programs for 14 types of combat vehicles during those years. For FY 2002, the Army planned to overhaul only 123 of the 1,393 vehicles at a cost of \$76.8 million.

The Army reported only \$93.9 million in unfunded depot-level maintenance in Op-30 reports for its combat vehicles in FY 2002 even though \$341.4 million (\$418.2 million less \$76.8 million) of the backlog of vehicles that qualified for depot-level overhaul was deferred. The Army did not report all of the deferred maintenance because it believed it would not receive the large amount of funding needed. The condition assessments showed that unfunded depot-level maintenance was under-reported by \$247.5 million (\$341.4 million less \$93.9 million) for combat vehicles for FY 2002.

As a part of the FY 2002 budget process, Army managers reported that the lack of funding for depot-level maintenance of its combat vehicles would degrade readiness.

Blackhawk Helicopters. Army Regulation 750-2 also requires the Aviation and Missile Command (AMCOM) to complete annual evaluations of the condition of all aircraft. However, depot-level overhauls of helicopters were not scheduled based on condition assessments of the helicopters. Instead overhauls were deferred pending the implementation of the Army recapitalization program.

The Army defines recapitalization as the rebuilding and selected upgrade of currently fielded systems to ensure operational readiness. Recapitalization requires the Army to rebuild the systems to zero-time/zero mile engineering standards. The goal of the recapitalization program is to reduce the average age of 17 key Army weapons systems to 10 years. In FY 2001 testimony to Congress, the Commander of the Army Materiel Command testified that the average age of

Blackhawk helicopters was 17 years. In order to meet its objective of 10 years average age, the Army should have been recapitalizing the Blackhawk helicopters in prior years.

During FY 2001, the AMCOM Aviation Condition Evaluation Program identified 67 Blackhawk helicopters that qualified for depot-level overhaul. The 67 helicopters would have cost approximately \$181.2 million to overhaul in FY 2001. However, the Army initiated the overhaul of only 12 Blackhawk helicopters during FY 2001 for approximately \$32.5 million. For FY 2002, the AMCOM budget information reported only \$29.9 million in unfunded depot-level maintenance for Blackhawk helicopters even though \$148.7 million (\$181.2 million less \$32.5 million) of the depot-level maintenance was deferred pending recapitalization of the Blackhawk helicopters. The condition assessments showed that unfunded depot-level maintenance was under-reported by \$118.8 million (\$148.7 million less \$29.9 million) for the Blackhawk helicopters.

Historical data from AMCOM engineers showed that approximately 107 Blackhawk helicopters (7 percent of the fleet of 1,531 helicopters) should have been overhauled each year at approximately \$2.7 million for each helicopter. However, for the 4-year period from FYs 1998 through 2001 the Army overhauled only 38 helicopters for \$104.3 million. If the Army had overhauled 428 Blackhawk helicopters during the same time frame (4 years at 107 helicopters per year), the Army would have spent approximately \$1.2 billion on overhauls. The low rate of overhaul saved the Army depot-level maintenance funds, but caused the average age of the Army Blackhawk fleet to increase in age to 17 years. The low rate of overhaul in the past will also force the Army to defer future overhauls that will not be executable until future years.

The AMCOM engineering estimate of the number of helicopters that required overhaul per year (7 percent of the fleet per year) was slightly less than the rate of overhaul performed on the Air Force version of the Blackhawk helicopters. Specifically, the Air Force contracts with the Corpus Christi Army Depot to overhaul approximately 10 percent of its fleet of Pavehawk helicopters per year. The information from Air Force overhauls shows that the Army engineering estimate of required overhauls is conservative.

As a part of the FY 2002 budget process, the Blackhawk weapons system manager reported that the lack of depot-level funding would defer maintenance that is required to correct critical defects. The lack of funding could cause a hazardous or unsafe condition for flight operations and degrade performance of the aircraft. Mission and unit readiness rates will also decline.

To adequately quantify deferred maintenance, the Army needed to adapt its budget process to identify these actual amounts of unfunded deferred depot-level maintenance.

Deferred Field-Level Maintenance. The Army deferred performing material amounts of field-level maintenance because of inadequate funding for labor. However, the Army did not report any of the deferred field-level maintenance in Op-30 budget reports.

For FY 2001, the Army did not have enough mechanics to perform at least \$234.5 million of required field-level maintenance on combat vehicles and related support equipment. Specifically, the Army Forces Command (FORSCOM), which includes only active Army units in the Continental United States, did not fund an estimated \$234.5 million in field-level labor requirements and an undeterminable amount of deferred field-level spare and repair part requirements. The unfunded FY 2001 field-level labor requirements resulted in deferred maintenance for FY 2002 that needs to be reported.

Army Regulation 570-4, "Manpower Management," May 15, 2000, prescribes planning, budgeting, programming, and execution policy for Army manpower. The Regulation provides standards for how much time mechanics should perform maintenance. The Army has more field-level maintenance requirements than Army mechanics can perform under the standards. Specifically, the Army maintains a database of the expected number of hours needed to perform the annual maintenance on its equipment. Based on its analysis of the data base, FORSCOM determined that the Army did not fund \$294.5 million of field-level maintenance.

In FY 2001, Army field commanders used approximately \$60 million from operating funds to hire contractors to complete field-level maintenance in order to make up for the shortfall in mechanics. FORSCOM established Vehicle Readiness and Enhancement Programs and Contract Augmentation Teams to complete required maintenance on combat vehicles. The \$60 million of work reduced the shortage of funding for mechanics from \$294.5 to \$234.5 million. However, results from recent FORSCOM inspections found readiness problems that occurred due to the mechanic shortages. Specifically, during FY 2001, the FORSCOM-IG performed random inspections of units reporting readiness rates above 90 percent and found that actual readiness rates were 30 to 50 percent less than reported.

Additionally, when mechanics did not complete maintenance, spare and repair parts were not ordered. For example, FORSCOM established maintenance projects on tracked vehicles that were being transferred to other Army units in order to repair the vehicles to Army maintenance standards. FORSCOM records showed that the Army deferred ordering \$3.43 in spare and repair parts for each dollar of deferred labor on the tracked vehicles. In another example, field-level programs for rebuilding tactical trucks showed that the Army deferred ordering \$1.34 in spare and repair parts for each dollar of deferred labor.

DoD regulations require the Army to report on material amounts of deferred field-level maintenance. Accordingly, we believe the Army needs to issue procedures to identify and submit unfunded labor requirements on an Army-wide basis and identify deferred requirements for field-level spare and repair parts.

Unexecutable Deferred Maintenance

DoD Directive 4151.18, "Maintenance of Military Materiel," August 12, 1992, defines deferred maintenance requirements as either unfunded requirements or funded requirements that are unexecutable due to the operational commitment of assets, lack of organic (in-house) or contractor facilities or parts, or other constraints.

When backlogs of weapons systems that are qualified for overhaul are larger than annual depot capacity to repair the systems, the backlog must be deferred to future years. During FY 2002, the Army did not compile information on material amounts of unexecutable deferred maintenance information.

Program Budget Decision 021R, "Active Army Operations," December 10, 2001, states that the FY 2002 Army budget requirements were not in compliance with the DoD effort to reverse the decline of the condition of weapons systems. The budget decision states that Army depot maintenance experts acknowledged that maintenance backlogs cannot be fully eliminated because sharp increases in depot-level maintenance workloads cannot be executed due to commitment of assets, lack of organic or contractor facilities, parts shortages and other constraints. For example, the Army requested \$126.1 million to fund the overhaul of 674 Patriot missiles during FY 2002. The program budget decision disapproved the Army request because the Army could only execute the overhaul of 108 missiles during FY 2002 due to the lack depot-level maintenance capacity. This resulted in \$105.9 million in unexecutable maintenance for FY 2002.

Additionally, as of April 2002, AMCOM faced a shortage of \$1.4 billion for spare and repair parts that are needed to support depot-level maintenance programs. AMCOM officials told us that the shortage of spare and repair parts would further delay depot-level programs for helicopters.

The amount of unexecutable deferred maintenance on Army weapons systems will grow in the future. As of April 2002, the Army identified \$1.9 billion in unexecutable maintenance requirements for FYs 2004 through 2009.

The Army needs to quantify the FY 2002 amount of unexecutable deferred maintenance prior to the compilation of the FY 2003 Army General Fund Financial Statements.

Conclusion

DoD financial management regulations provide the Army flexibility in accounting for and reporting on deferred maintenance. The Army budget process should be adapted to produce sufficient information to estimate the amounts of deferred maintenance that has accumulated on its weapons systems. Specifically, the Army should use condition assessments and historical maintenance information to estimate the amount of deferred maintenance on Army weapons systems.

Recommendations and Management Comments

We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller):

- 1. Issue policy to report all deferred maintenance identified in condition assessment reports, including maintenance that will not be funded because the maintenance cannot be executed due to constraints in depot-level maintenance capacity.**
- 2. Report deferred field-level maintenance amounts that are material as well as deferred maintenance identified as unexecutable until future years.**

Management Comments. The Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller) concurred. He stated that the Army would implement policies and procedures to ensure that all material deferred maintenance is reported on in required supplementary information to the FY 2003 Army general fund financial statements. See further comments on the Management Control Program in Appendix A.

Appendix A. Scope and Methodology

We performed our audit at the Forces Command (FORSCOM) and four of its garrisons. We also performed our audit at the Tank-automotive and Armaments Command (TACOM) and the Aviation Missile Command (AMCOM). We determined whether the Department of the Army consistently and accurately compiled cumulative deferred maintenance requirements for its weapons systems. We also reviewed budgetary and financial information compiled by the Army to determine whether the information could be used to estimate deferred maintenance on Army weapons systems. We reviewed FORSCOM studies on maintenance and visited field-level maintenance activities to observe maintenance operations and the condition of equipment. We also analyzed data on the Army recapitalization program, Army depot-level overhaul programs, and field-level maintenance programs. We primarily focused on the records used to compile deferred organic maintenance and did not include a review of possible deferred maintenance at contractor facilities.

We performed this audit from July 2001 to May 2002 in accordance with generally accepted government auditing standards.

Use of Computer-Processed Data. The information we analyzed was generated by Army subordinate commands during the budgetary process at the summary level. The information was not generated by a standard system. As a result, we did not evaluate the adequacy of the computer systems' general and application controls. We also could not provide precise estimates of the amount of deferred maintenance on Army weapons systems.

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the DoD. This report provides coverage of the financial management high-risk area.

Management Control Program Review

DoD Directive 5010.38, "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed the adequacy of management controls over the compilation and reporting of deferred maintenance information on Army weapons systems. We reviewed management's self-evaluation applicable to those controls.

Adequacy of Management Controls. We identified a material weakness for the Army as defined by DoD Instruction 5010.40. Management controls were not adequate to ensure that deferred maintenance information on Army weapons

systems was consistently and accurately compiled. In addition, the Army had not adapted budgetary information to comply with DoD accounting and reporting policy. Recommendations 1 and 2, if implemented, will allow the Army to compile and report reasonable estimates of the amount of deferred maintenance that has accumulated on Army weapons systems. A copy of the report will be provided to the senior official responsible for management controls for the Army.

Adequacy of Management's Self-Evaluation. The Army did not identify deferred maintenance as an assessable unit and, therefore, did not identify or report the material management control weakness identified by the audit.

Management Comments on the Management Control Program and Audit Response

Management Comments. The Principal Deputy Assistant Secretary of the Army (Financial Management and Comptroller) non-concurred with our conclusion. He believed the material weakness occurred because the DoD reporting process did not require the Army to report all deferred maintenance information.

Audit Response. We disagree with the Army's assessment. DoD policy allows the Army to be flexible in reporting deferred maintenance information. In addition, DoD policy was changed for FY 2002 to require the reporting of all material deferred maintenance. As a result, the Army should report a material management control weakness regarding deferred maintenance reporting.

Prior Coverage

This is one in a series of reports on deferred maintenance. We issued Report No. D-2003-030, "Financial Reporting of Deferred Maintenance on Air Force Weapons Systems for FY 2002," on November 27, 2002. We also are in the process of issuing a report on Navy deferred maintenance. Unrestricted IG DoD reports can be accessed at <http://www.dodig.osd.mil/audit/reports>.

Appendix B. Report Distribution

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Department of Army Comments



REPLY TO
ATTENTION OF

DEPARTMENT OF THE ARMY
OFFICE OF THE ASSISTANT SECRETARY
FINANCIAL MANAGEMENT AND COMPTROLLER
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WASHINGTON, DC 20310-0109

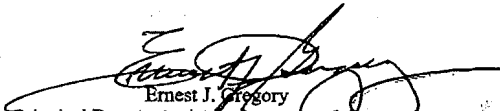
17 December 2002

MEMORANDUM FOR THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Report on the Financial Reporting of Deferred Maintenance Information on
Army Weapon Systems for FY 2002 (Project No. D2001FJ-0156.002)

As requested, in your cover memorandum to this Draft report, title as above, the Army comments regarding this Draft report are attached.

Any questions regarding this Army response to this Draft report should be sent to Mr. Tom Fergason at 703-693-3512.


Ernest J. Gregory
Principal Deputy Assistant Secretary of the Army
(Financial Management and Comptroller)

Enclosure

DRAFT OF A PROPOSED REPORT

Financial Reporting of Deferred Maintenance Information on Army Weapon Systems for FY 2002

Project No. D2001FJ-0156.002

September 30, 2002

Following are the Department of Defense Inspector General (DODIG) recommendations included in this Draft Report and the coordinated Army responses concerning these recommendations.

1. That the Assistant Secretary of the Army (Financial Management and Comptroller) issue policy to report all deferred maintenance identified in condition of assessment reports, including maintenance that will not be funded because the maintenance cannot be executed due to constraints in depot-level maintenance capacity.

Army Response: Concur. The Army ODCS, G4 is issuing guidance requiring all elements of the Army to identify and collect deferred depot-level maintenance requirements including maintenance that will not be executed due to constraints in depot level maintenance capacity (rather than funding). The Army is developing the capability to capture this data through automated systems. The Army will report this information as a memo entry in the Army General Fund Financial Statement beginning with the FY 2003 statement.

2. That the Assistant Secretary of the Army (Financial Management and Comptroller) report deferred field-level maintenance amounts that are material as well as deferred maintenance identified as unexecutable until future years.

Army Response: Concur. The Army ODCS, G4 is issuing guidance requiring all elements of the Army to collect and identify deferred field level maintenance amounts that are material as well as deferred maintenance identified as unexecutable. The Army will begin reporting this information as a memo entry in the FY 2003 Army General Fund Financial Statement

DRAFT OF A PROPOSED REPORT

Financial Reporting of Deferred Maintenance Information on Army Weapon Systems for FY 2002

Project No. D2001FJ-0156.002

September 30, 2002

Following are the Department of Defense Inspector General (DODIG) comments on the Adequacy of Management Controls included in this Draft Report and the coordinated Army response associated with this statement.

The DODIG Draft report identifies a material weakness for the Army as defined by DoD Instruction 5010.40. Management controls were not adequate to ensure that deferred maintenance information on Army weapons were consistently and accurately compiled. In addition, the Army has not adapted budgetary information to comply with DoD accounting and reporting policy. Recommendations 1 and 2, if implemented, will allow the army to compile and report reasonable estimates of the amount of deferred maintenance that has accumulated on Army Weapons systems.

Army Comment: Non-concur. The Army's long standing practice to not display in its budget exhibits all deferred maintenance requirements is not the result of either a process or systems failure, but simply results from a managerial policy decision that only those unfunded but executable maintenance requirements should be included in the budget estimates of deferred maintenance backlog. This practice was generally known within the Office Secretary of Defense (OSD) and higher. As a result, we believe this longstanding practice ensured budget consistency from one submission to the next, and was not criticized in previous audits of this program. Therefore we do not consider this a material weakness. However, we are implementing policy and guidance that will resolve the problems identified in Recommendations 1 and 2 of this Draft Report. This will allow the Army to compile and report reasonable estimates of the amount of deferred maintenance that has accumulated on Army Weapon Systems beginning with the submission of the FY 2003 General Fund Financial Statement.

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